

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01 L-03  
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FM AMCONSUL MILAN  
TO SECSTATE WASHDC 5126  
INFO AMEMBASSY ROME

C O N F I D E N T I A L MILAN 2711

E.O. 11652: GDS  
TAGS: ECON, EFIN, IT  
SUBJECT: MILAN CITIBANK FORECAST OF BANK OF ITALY RESERVE  
POSITION

1. FIRST NATIONAL CITY BANK IN MILAN BELIEVES BANK  
OF ITALY SHOULD EASILY BE ABLE TO HANDLE PRESSURE ON  
LIRA THROUGH APRIL OR MAY OF 1977.

2. IN DISCUSSIONS WITH MILAN CITIBANK PRESIDENT AND  
TREASURER THIS WEEK, WE LEARNED THAT BANK REACHES  
ABOVE CONCLUSION ON BASIS OF TWO ASSUMPTIONS. FIRST,  
BANK ESTIMATES PRESENT NET RESERVES OF DOLLARS 2.5  
BILLION (NOT INCLUDING GOLD) AFTER PAYMENT OF ONE-HALF  
BILLION TO U.K. IMPLICIT IN THIS ESTIMATE IS BANK'S  
FEELING THAT PRIOR DEPOSIT SCHEME AND SEVEN PERCENT  
EXCHANGE TAX ARE ENCOURAGING ABNORMALLY LONG DELAYS  
IN PAYMENT FOR IMPORTS. SECONDLY, BANK ASSUMES PRI-  
VATE ITALIAN BANKS OVER NEXT SEVERAL MONTHS WILL NOT  
PAY OFF FOREIGN DEBTS AS THEY BECOME DUE BUT WILL  
REFINANCE MANY LOANS.

3. BANK SEES MAJOR INFLOWS AND OUTFLOWS FROM PRESENT  
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ASSUMED RESERVES OF DOLLARS 2.5 BILLION AS FOLLOWS:

A. ITALY WILL PROBABLY RECEIVE \$500 MILLION FROM EC  
AND AT LEAST \$530 MILLION FROM IMF. \$311 MILLION  
FROM FIAT-LIBYA DEAL IS ASSURED. BOI COULD ALSO RESORT  
TO \$2 BILLION SWAP WITH US FEDERAL RESERVE IF NECESSARY.

B. ON PAYMENT SIDE, ITALY MUST PAY \$100 MILLION IN COMPENSATING LOANS AND \$550 MILLION IN OTHER BANK LOANS BY FEBRUARY.

C. BANK ESTIMATES ITALIAN DEFICIT WILL INCREASE BY ABOUT DOLLARS 1.5 BILLION AT EXPIRATION OF CURRENT SEVEN PERCENT EXCHANGE TAX AND PRIOR DEPOSIT SCHEME. THESE EFFECTS WOULD OCCUR PRIMARILY IN APRIL AND MAY.

4. CITIBANK CONCLUDES THAT THERE WILL BE NO MAJOR DIFFICULTIES WITH LIRA THROUGH LATE SPRING OF 1977 AND FORESEES NO RESORT TO SWAP WITH FED. BANK OFFICIALS THOUGHT THAT LIRA WOULD DEVALUE TO ABOUT 930 PER DOLLAR BY THAT TIME, NOTING THAT THIS RATE IS ACTUALLY LESS THAN PRESENT RATE AFTER COMPENSATING FOR PRIOR DEPOSIT AND SEVEN PERCENT TAX (THEY CALCULATE CURRENT ADJUSTED LIRA RATE AT ABOQ 945). AFTERWARDS, THEY CONCLUDED, LIRA WILL LIKELY DROP BELOW THIS LEVEL TO OVER 950, THROUGH TOURIST REVENUES SHOULD RETARD THIS DROP UNTIL AFTER SUMMER. THEY ADDED THAT TRYING TIMES MAY COME IN AUGUST WHEN DOLLAR 860 MILLION LOAN FROM IMF COMES DUE.

5. COMMENT. CITIBANK OUTLOOK SEEMS CHARACTERISTIC OF GUARDED OPTIMISM SHARED BY MANY OTHER BANKERS IN THIS BANKING CAPITAL OF ITALY.FINA

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**To:** SECSTATE WASHDC ROME  
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